



January 28, 2004

Mr. Mike Weedall  
Bonneville Power Administration  
PO Box 3621  
Portland OR 97208-3621

Dear Mr. Weedall:

PNGC Power would like to offer its views on the agency's Post-2006 Conservation Work Group process and several substantive items related to the group's recommendations as they now stand. While we are, for the most part, in agreement with the Work Group we do differ in some areas. We are submitting these comments to emphasize our major concerns which we summarized at the meeting with Paul Norman on January 20.

We would preface our comments by first referencing PNGC Power's performance under the current C&RD Program. BPA staff continually refers to the lack of cost effectiveness in the current C&RD program but a closer look can show different results. PNGC Power has to date, achieved conservation under the C&RD program at approximately \$1.65 million per aMW. The difference between this number and that of BPA's ConAug program could be attributed to administrative costs which are not included in the \$1.3 million per aMW for conservation under the current ConAug program. We believe our efforts have led to cost-effective conservation for the region. We do not want to see the agency eliminate a program that is cost effective and easy to implement for our Members and create a program that instead will discourage our continuing efforts to capture low cost conservation.

### **Overview**

The Work Group process has been cumbersome and its fast track nature has caused many serious questions to go unresolved to the satisfaction of all parties. It is critical that they be resolved before a program structure is recommended. Some of the aforementioned questions that have a significant impact on the program design include:

1. "Cost-effectiveness" as described in the Council's Fifth Power Plan and implemented by BPA;
2. The Decrement issue;

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3. Acquisition vs. Non-Acquisition;
4. Block and Slice treatment;
5. Bridging the Gap between now and Post-2006; and
6. Handling of IOU exchange loads.

It is evident to us that more time is needed to adequately address the details and the impacts of these issues. We recommend extending the schedule and taking the time needed to fully resolve these issues. Otherwise, BPA and the region could be put at great risk of not achieving the conservation goals in the post-2006 timeframe.

The Council's Fifth Power Plan is integral to this entire process, yet few or no meaningful discussions have taken place between Council staff, utilities, and the agency. Utilities, in order to make a commitment of this magnitude, must have a better understanding of the Council's plan regarding conservation so they may identify how best to achieve conservation at a local level and determine how BPA can play a constructive role in the process. Once decided, they must then communicate those findings to BPA. An open dialogue with the Council staff is critical to this process regarding the details and implications of the Council's critical assumptions and conclusions. Also, the Council's plan, has recommended a "regional strategy." However, to date neither the Council nor BPA have engaged the region in such a discussion. ***Without a process that fully involves the Council, it is difficult to recommend a program.***

PNGC Power developed a set of principles as a guide for participation in the Work Group and to assist in determining the adequacy of any product. (See attached.) The one principle that we stressed with the Work Group and highlight here is:

...PNGC Power will judge the adequacy of a Post-2006 Conservation Program based on the package, i.e. is it equitable to all the interests? In other words while one piece of the program may not meet with our approval it maybe acceptable depending on the other pieces...

Based on this, we offer the following comments on the Work Group's recommendations.

## **Budget**

PNGC Power is willing to support the stated budget of \$400 million for the 2007 through 2011, Conservation Program if the proposed program is one we can effectively implement. We do not support program budget increases for any reason, such increases will only add to pressures to increase rates on customers. Also, it is unlikely that PNGC Power will be able to implement the current proposed program structure because it eliminates or severely limits our access to funds for conservation activities in our Members service areas.

In addition PNGC Power still believes that there is a better way to reduce the overall budget impact to the agency and the utilities. The agency should allow individual utilities, that so choose, to retain their conservation dollars and meet kWh targets on their own outside either the rate credit or bi-lateral programs.

## **Flexibility**

PNGC Power is opposed to the agency switching dollars between programs. One of the cornerstones of a sustainable conservation program is a sustainable budget. We can not have a sustainable program if funding for the rate credit program is in doubt from year to year. However, we do recommend that BPA allow for flexible spending across the entire program period. It is unrealistic to expect that identical budget amounts be spent each year across the entire program period. In some years there may be a need for the participating utilities to spend more than what is allocated for the yearly average. In other years utilities may not be able to meet the budgetary goals based on available projects. No less important is the fact that this same concept and process needs to be applied to the Council's aMW targets and the cost per aMW. They too must be realistic in their goals and mandates. There will be years where the "average" MW target can be met or exceeded and there will be years where the targets are not met. BPA and the Council's vision must focus on the final targets and goals they have set and then allow all participating utilities to operate flexibly within those parameters. As evidenced by the results of the current C&RD program, when utilities have the flexibility to perform, the goals and targets are achieved.

## **Cost Effectiveness**

Progress has been made in the discussion of cost effective measures. However, without having access to the list of eligible measures and their associated credits, any recommendation is difficult to support. Its PNGC Power's position that BPA has the authority, under the Pacific Northwest Electric Power Planning and Conservation Act, to include conservation measures in its program that do not fall under the strict definition of the Council's Total Resource Calculation. PNGC

Power proposes that BPA's calculation of measures cost effectiveness should not include any expenditure made by the end consumer, when determining the cost-effectiveness of a conservation measure. We believe that the only costs that should be considered are those that are paid by BPA and the utilities. If conservation is to be considered as an energy resource, it must be treated on the same basis as other resources.

For instance, if Utility A had the opportunity to purchase power over a period of time below the Council's avoided cost or below the fully allocated cost of the resource, would anyone say that they should not do it because they need to consider the costs of the private developer? Why is it then that we must consider the cost to private developer of conservation as a cost to the utility of that kWh? The only cost that matters is the cost a utility pays, and that should be cost effective to that utility.

The agency should not lose sight of the fact that the Council's cost effectiveness is a *regional* number and at best an average. To apply such a standard across the region's utilities is inequitable and surely was not intended by the regional Act.

The utilities should have the option to develop their local program, based upon what is the best interest of their members or customers. PNGC Power Members have adopted the efficiency standards set by the RTF as a guideline for their local programs. For the majority, meeting the RTF standards is a substantial increase in energy efficiency compared to existing conditions. The current value of the measures has been adequate to provide incentive for their members to participate. However, substantial changes in qualifying measures and values could have a negative impact on what can be offered to consumers both in terms of measures and incentives and will certainly impact our overall ability to achieve regional targets.

### **Decrement**

PNGC Power is opposed to any decrement and believes that imposing such a decrement on the rate credit program will only make the job of reaching the Council's targets more difficult. While we understand the logic and justification for a decrement under the Bi-lateral Contracts, there is no good reason for decrement under a rate credit program; it would simply destroy the incentive for utilities to participate. As for the Bi-lateral program, a decrement serves as one more barrier to participation by the Slice-Block customers. Our proposal would allow Slice-Block customers to have access to a portion the program funds without a decrement. We believe this standard to be fair. Our Members, and others as well, should have an equal opportunity to use money they pay to BPA for conservation without the barrier of decrement.

## **Oversight and Evaluation**

The Work Group has recommended using the oversight and evaluation language from the current ConAug program. PNGC Power strongly disagrees with this recommendation. PNGC Power believes that an oversight program should not duplicate the local utility efforts. Local utilities should not be presumed guilty until proven innocent. The current C&RD program is a model for how an oversight program should work. We do recognize that large projects are different, and should be treated differently. PNGC Power has completed several large projects and worked closely with BPA on the design, monitoring and verification of those projects. Leaving the “number, timing and extent of oversight visits” to the discretion of the agency is unnecessary and sends the wrong message. We raised these concerns in the Work Group process and provided alternatives. However, the structure of the Work Group process was such that it was not able to accommodate or even consider our concerns or alternatives on this matter.

## **Conclusion**

We understand the agency's need and desire to complete Phase I of the process. However, it serves no useful purpose for the agency or its customers if BPA jumps to a premature judgment on a conservation proposal without proper study and evaluation. We urge you to reassess the workgroup process, and we stand ready to move forward together in forging a post-2006 conservation program that is successful in meeting the region's goals.

Sincerely,

Eugene Rosolie  
Senior Economist/Conservation Administrator

cc: Paul Norman, BPA  
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Mike Rose, BPA  
Post-2006 Conservation Work Group